

## A BUSINESSMAN'S VISION OF GOZO IN THE E.U.

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**G**ozo is an easy going, rural and microscopic island, totally dependent on its sister larger island called Malta, located in the heart of the Mediterranean, with a population of some 29,000 people. The E.U. is presently a union of 15 rich and powerful European nations with some 375 million people heavily regulated by 31 chapters packed with rules and regulations.

The adhesion of Gozo to the E.U. is certainly not going to be an easy one and the framework for this process of adhesion will depend a lot on results obtained through the negotiation process in connection with Malta's application to join the E.U.

On the other hand, looking at the origins and the brief history of the European Union, it is comforting to see how countries with centuries of wars and hatred at the background, have managed not only to coexist in this union, but more importantly, to prosper during the process of cohesion.

The newly established Gozo Business Chamber, of which I am president, has resolved not to get tangled in the present local political debate as to whether or not, and when, Malta should join the European Union. The influence of the E.U. already dominates, both our economy and our lifestyles. Furthermore most reforms and issues which need to be addressed in the run-up for accession to the E.U., will still need to be addressed if Malta is to catch up with the pressures of globalization.

Hence, we, as an independent constituted body of businessmen, have

**decided to take an open and proactive stand. We have made it our mission “to seek to educate ourselves and our members on E.U. matters; assess objectively the impact of such membership on our business operations and lobby actively to improve the business opportunities on the island region of Gozo”.**

It is in this spirit that the Chamber has organized the seminar, held in January 2000, on the effects of E.U. membership on the island region of Gozo.

## **Gozo as a Region**

Regions are born of history, of culture and of traditions and are delineated by geography. Gozo has distinct social, cultural and economic characteristics which are unique to this island, and this situation has over the centuries determined the life styles of its people.

Historically, the administration of this region was very varied and ranged from a “Universitas of Gozo” answerable to a Governor, during the rule of the Knights of St John, to a more centralised civil administration under the British rule. More recently, Gozo has experienced various administrative set-ups: a Gozo Civic Committee; a Gozo Civic Council; a Parliamentary Committee; a Parliamentary Secretariat, and a Ministry with local councils. In 1998, proposals were put forward for the setting up of a Gozo Regional Council.

Looking at our nation from a European viewpoint, Malta as a whole, can easily be classified as a region of mainland Europe. In this regard, the double insularity dimension of the island Region of Gozo is clearly visible.

## **Gozitan Identity and the Spirit of Cohesion**

The distinct identity of Gozitans is very often mistaken and wrongly perceived, by people living on mainland Malta, as an independentalist and/or separatist attitude. On the contrary, the great majority of Gozitans feel as proud and convinced of being Maltese as any other person living in any other part of Malta; and this without renouncing to the distinct identity of

being a Gozitan. This reality gives Gozitans a better understanding of the spirit of cohesion practised in the European Union and defined in its Regional Policy.

The objective of the E.U. Regional Policy is to ensure a balanced and harmonious economic and social development throughout its territory. The aim is to reduce disparities between the levels of development of various regions and to reduce the backwardness of less favoured regions. Cohesion under this policy means greater unity through greater solidarity between regions with different identities.

To implement this policy and attain these objectives, the E.U. uses a series of financial funds, collectively known as Structural Funds and since the Maastricht Treaty, the E.U. has also set an additional fund known as the Cohesion Fund.

## **The Challenge of Change**

People often enquire as to why we should change, if we are already leading a decent lifestyle. Mr Alfred Mifsud, in his book entitled *Malta's Relations with the E.U. – a Realistic Way Forward*, addressed this issue as follows:

“Joining the E.U. or reaching some other type of relationship with the E.U. is not an end in itself. It is only a means through which we can offer a better quality of life to the people of Malta and Gozo, a means to increase our competitiveness in a world becoming even more globalised and ferociously competitive. It is a means through which we can attract foreign investment into our economy and through which we can guarantee for our production of goods and services a market far wider than the less than 400,000 people who permanently inhabit these over-populated resource-less islands we call home.”

In Gozo, everyone is willing to improve the quality of life and most businessmen have accepted that the only way to achieve this is through improved efficiency and constant improvement of our operations and our competitiveness.

## Enlargement Process of the E.U.

Looking at the E.U. and its history of enlargement, one notices that membership of new countries in the Union follow a regional pattern. In fact, during the 1980s three important Mediterranean countries joined the European Union, Greece in 1981 and Spain and Portugal in 1986. During those years, the then European Economic Community was less demanding on the state of readiness of applicant countries. Today the European Union demands compliance with most of its *acquis communautaire* prior to accession and much less pre-accession funds are being made available to applicant countries. The trend is that adhesion with the E.U. will get even tougher in the years ahead and pre-accession benefits will be further reduced as the Union grows bigger and stronger.

## Malta's Negotiation Strategy

The latest official update of the *Avis* of September 1999, under the heading "Regional Policy and Cohesion" states that "The lack of precise statistics on GDP in purchasing power parities prevents comparison with other E.U. regions". To date; the situation seems to have remained the same and any comments made in this regard are therefore based on pure speculation. Through business contacts, we have learnt that in Brussels various authoritative persons speculate that Malta could still fall under Objective 1 since it is assumed that Malta's average GDP per person is still below the 75% threshold of the present E.U. average. It is further assumed that this status would be short-lived by Malta, since the present E.U. average GDP per person is expected to fall as soon as several Eastern European countries with their very low average GDP per person join the E.U.

Should this be the case., Malta has to study very carefully whether it should apply for a regional policy for the whole nation or whether it would be more beneficial for Malta to apply a regional policy on specific regions such as Gozo; which might have a lower average GDP per person and might therefore enjoy the benefits of an Objective 1 region for a longer period of time.

Relevant to this possible strategy the *avis* states "Malta does not have a regional structure and there is no intermediate level between national

government and the 67 municipalities. Gozo (with Comino) has a separate ministry and specific aid programs”.

## **The Island Dimension**

According to the European Parliament an “Island Region is a part of a member state completely surrounded by water; without any fixed link to the mainland and without a national capital”. Under this definition, the island of Gozo is certainly a perfect candidate with full credentials. For the island of Malta to fit into this definition the “member state” issue and the “capital” issue require clarification through negotiations.

Looking at Gozo from a European dimension, Gozitan enterprises are heavily penalized by the permanent constraints of double insularity when compared to other mainland counterpart regions within the community. For this reason, we are very keen to see whether our negotiation position will include the “Island Dimension” and if so whether specific policies will be requested for Malta as a whole; or whether specific policies will also be requested for Gozo separately in addition to those for Malta.

The Inter-Governmental Conference of Amsterdam adopted the following Declaration which is very relevant to our nation.

“The Conference recognizes that Island regions suffer from structural handicaps linked to their island state, the permanence of which impairs their economic and social developments. The conference accordingly acknowledges that Community Legislation must take account of these handicaps and that specific measures may be taken, where justified, in favour of these regions in order to integrate them better into the internal market on fair conditions”

Furthermore the European Parliament has stated that the Commission should not limit its decision only to economic facts when deciding whether an island region qualifies for assistance from the Structural Funds. Also geo-economic criteria such as distance and the island specificities as permanent physical constraints to sustainable regional development, should be considered.

We therefore hope that negotiations will result in recognising the nation Malta as an island region of mainland Europe and Malta's Treaty of Adhesion would also include a Protocol for the Island Region of Gozo. In this scenario Gozitan businessmen can optimistically look forward to opportunities, which will lead to wealth generation in our region, and to our nation.

### **Accessibility: Physical and Through Telecommunications**

To the European Union, Malta's membership would represent an acquisition of its most southern region in the frontier border with the continent of Africa; a state which has a tradition and expertise of being a trading post of excellence. Accessibility to and for this region would therefore feature very prominently in the years ahead. The spectacular results of the Malta Free Port and the Malta International Airport bear witness to this reality. In Gozo, however, we need to address with urgency the old and monopolistic port practices resulting in unbearable high port charges for local operators. Furthermore careful planning should be made to direct a fair percentage of the probable E.U. structural funds towards the improvement of access facilities.

To the island region of Gozo, the issue of accessibility has even more relevance and importance. The building of three new ships is a step in the right direction, to improve access to and from Gozo, but it cannot stop there. We feel that the time has come for reviewing the monopolistic service offered by Gozo Channel. The promised and much needed improvements to the Cirkewwa terminal are long overdue, if we are to benefit at all from the introduction to the service of these new ferries.

In addition, the Mgarr Harbour, on the other hand, requires a major overhaul. It is simply too small to cater for today's traffic let alone the pressures of a better and bigger economic activity in Gozo. It is very disappointing to us Gozitan businessmen to see that such an important factor for the well being of our business does not yet feature on the political agenda of the two leading political parties.

This same unsatisfactory state of affairs is further reflected in the national Gozo Air Linkage Policy. We enquire why has the fixed wing air linkage been squashed completely? And why is it that the helicopter service is

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continuously under threat of suspension. For us Gozitans these services represent vital infrastructural measures, essential for our existence let alone our competitiveness. Instead, in this regard our vision involves enlarging and upgrading the Mgarr harbour into a specialized regional port in line with a national industrial strategy which will be proposed and explained in more detail further on. Similarly, discussions for a fixed wing airstrip in Gozo have to resume. Ways have to be found to combine the pressures of modern society with the equally important environmental demands.

Today, accessibility through telecommunications is of paramount importance. In this sector Malta could be losing its edge with the rest of Europe, not only in the level of service offered but more importantly in the outrageous prices attached to such services. This reality harms not only existing business operations in Malta and Gozo, but also blocks future and much needed investment opportunities such as the "International back office" and "e-commerce" operations; new business opportunities which are already generating considerable wealth in other parts of Europe.

### **Tourism and Agriculture**

The Tourism and Agricultural sectors are very important for the development of the tiny Gozitan economy and ways have to be found to make both sectors prosper within a E.U. environment.

The focus of tourism in Gozo has to shift from the present masses of day trippers to making Gozo a true separate tourist destination, complementary to that of Malta. Our vision for this sector include investments in improved facilities such as a golf course; a casino, theme parks; better sports facilities; more cultural events and above all investments in training our youth to give a true five star service. Investments of this kind should be encouraged and supported through E.U. funding and through eligibility for preferential tax rates. The linkage of agriculture with the environment and with tourism is particularly visible in the island region of Gozo.

Agriculture in the European Union accounts for less than 2% of the GDP of the Union, yet this sector attracts more that 40 billion euros annually (equivalent to 17 thousand million Maltese liri) which is roughly half the



yearly expenditure of the E.U. budget. This level of support was again confirmed for the next seven years in the Agenda 2000. During this summit, the so called Common Agricultural Policy was reviewed and the basis of this review was to ensure that E.U. agriculture in the years ahead remains to be multifunctional, sustainable, competitive and spread throughout Europe, including regions with specific problems, that it remains capable for maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and that it responds to consumer concerns and demands as regards food quality and safety, environmental protection and the safeguarding of animal welfare.

In Malta during the last forty years, the agricultural sector has been one which attracted very little financial support by successive administrations. Instead, local politicians preferred to protect local production through prohibition of foreign imports and subsequently through import levies. The successful integration of the local agricultural sector in the E.U.'s Common Agricultural Policy will depend largely on the ability of agricultural operators in persuading local politicians to divert substantial financial aids towards this sector similar to their European counterparts.

We recommend the following measure relative to this sector for the island region of Gozo:

- Secure a regional quota out of the negotiated national quota for those agricultural products which are regulated in the E.U. through a quota system.
- Present a regional approach linked to the "Island region" dimension to obtain special farm incomes support aids due to the permanent natural handicaps of double insularity.
- Prepare plans to accede to specific rural funds to protect Gozo's fragile countryside and Gozitan regional products.
- Prepare plans for specific aids for the possible conversion of Gozitan agriculture to organic farming and for Gozitan farms to convert breeding methods to comply with good traditional animal welfare practices.



## **Economic Operations**

The recently published White Paper by the Ministry of Economic Services carries the following important statement. "Malta must unleash its potential as a central mode of activity in the region, to the benefit of both sides of the Mediterranean; the North and the South" The economic activity of Malta already centres around this stated strategy; a strategy which should be enhanced in the years ahead. In fact, in a E.U. environment, the scope of this strategy can be widened to become a first tangible experience within the spirit of the Euro-Med Process as established in Barcelona in 1995

The most important asset of Malta and indeed in the island region of Gozo is its well trained, English speaking, quality conscious workforce. We therefore need to tap this important resource and combine it with our strategic position in the centre of the Mediterranean. Malta and Gozo should become the gateway to Europe for African Countries, not for illegal immigrants, but for their exports of products and for their imports of services.

There are a number of industrial activities which can combine raw materials that are readily and cheaply available in neighbouring Mediterranean countries with our advanced technological and quality conscious industrial base to produce products of quality exportable to the highly regulated north European countries and indeed to America and other sophisticated markets.

Areas of business that can benefit from such a scheme include:

- fresh fruit packing stations
  - the agro-food processing industry
  - the ceramics and porcelain industry
  - the cotton dying and processing Industry
  - the automotive accessories industry
- (for leather seats and interior leather finishing) etc.

The island region of Gozo can be fully integrated to benefit from such an important strategy. Malta has already an efficient freeport, and combined with the potential regional port of Mgarr, an Industrial Free Zone can be created at the Xewkija Industrial Estate and other future industrial areas in other parts of Gozo. Through negotiations, such a venture can become a

reality. In fact in the European Union, there are already other free zone facilities in other island regions similar to Gozo. Such a measure would revitalize the presently retracting industrial sector in Gozo and would generate an economic activity yet unequalled in its history.

## **Services Sector**

The services industry is another sector which can generate wealth in the years to come and if we devise proper strategies the benefits can be spectacular for Gozo. We are very much aware that presently there are two crusades aimed at combating harmful tax competition, one being engaged by the E.U. itself and the other by the OECD. The ingredients as to what constitutes “harmful” tax competition in both initiatives include :

- a low tax rate for an indefinite time
- lack of transparency
- no physical presence companies (i.e. paper companies)

Whilst respecting the above three bench-marks and through a strategic approach to the negotiations with the E.U., Gozo may be allowed to develop itself as a financial and trading centre in its own right. Areas of business that come to mind are:

1. Trading companies operating internationally employing at least 5 persons being entitled to a preferential tax rate to say 5% for a negotiated and defined period of time.
2. Software development companies employing at least 10 persons becoming entitled to a preferential tax rate of say 5% again for a negotiated and defined period of time.
3. International “back office” operator companies employing at least 10 people becoming entitled to a preferential tax rate of say 5%, once again for a negotiated and defined period of time.
4. An attractive tax regime for e-commerce companies operating in specialized sectors such as in the leisure industry.

The spin-off effects to the economy of Gozo, if even one of the above

mentioned initiative is implemented, could be enormous and could go a long way to soften the disadvantages connected with its double insularity.

## **Conclusion**

Malta's process of adhesion to the European Union can become a very challenging time for all of us. As stated earlier, joining the E.U. should be a means to generate better business opportunities leading to better wealth generation and hence forth to a better standard of living to us people.

The E.U. should not be presented as a paradise on earth or a bed of roses. The E.U. follows a highly regulated regime – a regime to which we are not yet used to, and which requires a painful shock therapy treatment on all of us for its implementation. Hence we augur that negotiations with the European Union would take into account the efforts and time-frames required for the people of Malta and Gozo to adjust to the *Acquis Communautaire* and reduce as much as possible the sacrifices which we will be asked to make in the coming years.

Different people expect different things from the European Union. We businessmen seek business opportunities which can be obtained only through continuous dialogue between all concerned. This difficult process requires the input of everyone, men and women of vision, technical people, politicians, legal advisors, men of experience, and good negotiators, all wrapped up in a spirit of mutual respect on both sides of the negotiation table – and indeed a big dose of good luck.